

SERVICE ON LOANS AND ADVANCES – FACTOR ANALYSIS

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ABSTRACT

The customer choice and awareness have been increasing tremendously during this decade due to more open economy, the advent of information technology and media revolution, besides hectic competition for resources by banks. As markets have become increasingly competitive, customers can now immediately go elsewhere if they do not get what they want. Continuous improvement, gaining the competitive edge, increased market share, higher profits-none of these things is possible unless businesses can find new ways of maintaining the loyalty of existing customers.

It takes only a few incidents and direct experiences for the knowledgeable customers to form an opinion about the quality of the services and the quality of the product offered. Hence, “customer service is not being viewed as just a business strategy but should become a corporate mission.”

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Introduction

“By entering into your premises, the customer is giving you opportunity to serve him, but you are not doing a favour by serving him”

- Mahatma Gandhi.

The liberalisation and globalisation of Indian economy took place almost a decade ago. Ever since, the focus point in any service organisation has been “customer service”, more so in the banking industry. The phrases such as “customer is the king in our business”, “service to customer is service to God” are no more a myth but have turned out to be a reality. Customer service is the base for business expansion because of the stiff competition prevalent in the banking industry. With the advent of new private banks, the concept of “customer service” has become an important and pivotal issue in banks, whether it is in the public sector, private sector, co-operative sector and so on. The survival of banking business is dependent on customer services.

Customer Service-Significance

“The Banking sector industry is considered a service oriented industry. It has to render manifold services to the people who visit the banks. Customer service refers essentially to counter level inter face or through other modes with the customers.”¹

The issue of proper customer service is central to all business operations. That is why management experts have for long, considered customer service as an integral part of the growth strategy of their businesses.

‘The leader of an organisation should live and breathe customers’ needs and should communicate this across the organisation.’²

Hence, the major component of customer service is related to the involvement and commitment of the staff rendering such service. Since the marketing of financial service offered by bank very much depends on the quality of customer service and the satisfaction that customers derive from the services they receive the important criterion to judge the benchmark of a bank is customer satisfaction in terms of good service.

Banker and Customer Relationship

Today the relationship between the banker and customer has come under sharp focus both at the banker's as well as at the customer's ends. Many customers are expecting better service. The dominant questions which are bothering the minds of bank management today are how to improve customer service and competitive advantage. The products are almost the same; however, the battleground is service.

Paradigm Shift – Scenario in India

<i>Before 1991</i>	<i>After 1991</i>
Seller's market	Buyer's market
Protected market	Open market
Not many global brands	Increase in number of global brands
Friendly competition	Cut-throat competition
Patient customers	Demanding customers
Limited choice for customers	Increasing choice for customers
Limited role of service	Increased role of service
Speed @ will	Turbo speed
Fundamental standalone system	Enterprise system
IT-competitive advantage	IT-Enabler
Gaining new customers	Retaining existing customers
Monologue	Dialogue
Transaction	Relationship

Source: IBA Bulletin, August 2004, p-6.

Statement of problem

Customers' preferences keep on changing at a rapid speed and their demands are turned insatiable. In order to cater to the changing preferences, bankers are bound to provide the services suitable to their needs to survive in the competition. Hence an attempt is made to analyse the opinion about factors affecting satisfaction of customers on Loans and Advances were subjected to factor analysis

Review of Literature

Kamath³ in his thesis entitled "Marketing of Bank Service with Special Reference to the Branches in Bombay City of Syndicate Bank" has concluded that quick and better services mattered in attracting and retaining a bank customer.

R.P Goyal⁴ in his article "Customer Service in Banks" has underlined the importance of improving customer service in banks and suggested that it could be achieved by motivating and orienting the staff, simple systems and procedures and specific schemes to suit customer needs.

H.K. Bedbak⁵ in his study entitled "Institutional Financing for Priority Sectors – An Analysis of Delay and Attitude," has analysed the delays in sanctioning of loans and attitude of institutional agencies towards the customers as borrowers.

Manjit Singh⁶ in his project "A Study of the Impact of Bank Lendings on Weaker Sections – A Case Study of Agricultural Development Branch of State Bank of India, Moga" has reviewed the standard of living of beneficiaries and non beneficiaries in Moga of Madhya Pradesh.

R. Neelamegam⁷ in his research study “Institutional Financing to Small Scale Industries” has reviewed the various types of institutional financing facilities available to small scale industrial units in Tamil Nadu.

Ranade⁸ in his study entitled “Marketing of Deposit and Allied Service to Non-resident” customers concluded that guide service is the major factor influencing an NRI in the selection of a bank.

Eugene W. Anderson, Daes and Furness and Donald R. Lehmann⁹ discussed the links between quality, expectations, customer satisfaction and profitability. The findings state that when quality and expectations increase, there is a positive impact on customer satisfaction and in turn, profitability.

Objectives of the Study

- 1 to analyse the opinion of customers on Loans and Advances service and influencing factors
- 2 to offer suggestions for the improvement of customer services in State Bank of India

Scope of the Study

This study covers the customer services rendered by State Bank of India in Madurai city. As the study is an empirical study to identify the attitude of the customers towards the services rendered by the banker, the study has been focused towards customers who are the recipient of services and bank employees who are the agencies of delivery of services. As such, it has been projected from the point of view of bank employees and from the point of view of bank customers. It is analysed with reference to customers and employees attitude. The State Bank of India in Madurai city consists of 13 branches. The study was undertaken on the customers and Bank employees of 13 branches only.

Methodology

The present study is an empirical one based on survey method. Data were collected from both primary and secondary sources. The primary data were collected from banks' customers and bank employees by means of interview schedule and questionnaire.

Sampling Design

The study aims at analysing the attitude of customers of State Bank of India in Madurai city branches with regard its services.

242 bank employees were supplied with the questionnaire in 13 branches of State Bank of India in Madurai city. But only 240 respondents filled in the questionnaire. Out of these 240 respondents, 60 respondents were bank officials (Bank Managers and Officers). All of them have responded. The remaining was clerical which amounting to 60 per cent of the clerical staff selected on proportionate random sampling method. Indeed, the questionnaires were given through branch managers of the said 13 branches to the clerical staff and they got back researcher the questionnaire filled in by the clerical staff of the respective branches.

Geographical Area of the Study

The study covers the whole area of Madurai city only where the branches of the State Bank of India are situated. They are Amman Sannadhi Branch, Arasaradi Branch, Commercial Tax Complex, Madurai Agricultural Development Bank Branch, Madurai city Branch, Pasumalai Branch, Personal Banking Branch, Tallakulam Branch, Vinayaganagar Branch, West Tower Branch, Railway Station Branch and Madurai Main Branch.

Analysis of the study

Factor Analysis

Factor Analysis is called the queen of analytical methods. Factor analysis is based on the fundamental assumption that some underlying or latent factors which are smaller in number than the number of observed variables, are responsible for the co-variation among the observed variables. Thus a certain correspondence exists between the underlying factors and observed variables. The mathematical properties of the correspondence are such that one

causal system of factors leads to a unique correlation system of observed variables, but not vice versa. The correlation co-efficient is used as a measure of interrelationship (association) among the variables and those between the subsets. A factor analytical approach is used to address whether these observed correlations could be explained to the existence of a small number of hypothetical variables. Simply, it is a method for extracting common factor variances from sets of measures.

Principal component analysis method with varimax rotation had been selected since it is an approach to factor analysis that considers the total variance in the data and also enhances interpretability. Principal component analysis is recommended when the primary concern is to determine the minimum number of factors that will account for maximum variance in the data for using subsequent multivariate analysis.³ Varimax procedure is an orthogonal method of factor rotation that minimizes the number of variables with high loadings on a factor thereby enhancing the interpretability of the factors.⁴

In the research, factor analysis has been used to identify the structures and to minimize the items within each dimension. For each dimension, factor analysis was done separately with the items of that particular dimension. The items, with high factor loadings in the first factor – the first factor is the one with high eigen value and explains maximum proportion of the total variance – have been selected as they are supposed to represent one common construct of that particular group.

Loans and Advances

The estimated results for loans and advances are given in Table 1

TABLE 1

Rotated Factor Loading-Loans and Advances

<i>Sl. No.</i>	Variables	<i>F1</i>	<i>F2</i>	<i>F3</i>	<i>H²</i>
1.	Provision of Car Loan.	0.89569	0.09954	0.15154	0.83513
2.	Provision of Educational Loan	0.84452	0.22251	0.12767	0.77903

3.	Provision of Jewel Loan	0.82165	0.09100	0.18047	0.71595
4.	Provision of Personal Loan	0.80373	0.20656	0.28441	0.76954
5.	Provision of Property Loan	0.72310	0.26557	0.34364	0.71149
6.	Bank provides need based Loan	0.68272	0.21343	0.33620	0.62469
7.	Provision of housing Loan	0.64141	0.21147	0.47166	0.67859
8.	Provision of Loan of Pensioners	0.12339	0.85471	0.13674	0.76445
9.	Provision of Project Finance	0.41737	0.79232	0.02401	0.80254
10.	Provision of Festival Loan	-0.01644	0.76839	0.38903	0.74203
11.	Processing Fee is Nominal	0.27395	0.61782	0.22461	0.50720
12.	Easy Repayment Instalments	0.24110	0.13601	0.85816	0.81306
13.	The Loans are Adequate	0.27965	0.33034	0.76076	0.76639
14.	Refinance Provided	0.42647	0.22711	0.63352	0.63481
	Percentage variance explained cumulative	52.2	64.8	72.5	

Source: Primary Data

Table 1 represents the matrix of common factor co-efficient or factor loading. The number of factors extracted was seven. The ratios which have the highest loading (70.50) in each factor are grouped, that is the ratio's which are more closely related to a particular factor are boxed. The last column in table is communality (h^2), that is the variance explained by the factor. In the following section, these results can be interpreted by carefully examining the significant loading for ratios clustering on each factor.

Factor I (F1)

In this factor, 'Provision of car loan (0.89569)', 'Provision of Educational loan (0.84452)', 'Provision of Jewel loan (0.82165)', 'Provision of Personal loan (0.80373)', 'Provision of Property loan (0.72310)', 'Bank provides need based loans (0.68272)', 'Provision of housing loan (0.64141) have the highest significant positive loadings. As the above related to bank's provision of different types of loan to suit to customers, Factor I is characterised as "Varied need based Loans".

In State Bank of India, customers are availing of different types of loans suitable for their best needs.

Factor II (F2)

In the second factor, 'Provision of loan to pensioners (0.85471)', 'Provision of project finance (0.79232)', 'Provision of festival loan (0.76839)', 'Processing fee is nominal (0.61782)', are all the variables that have the highest significant positive loadings on Factor II. All these variables represent loan to special group and processing fee. Factor II can be named as "Loan to special group and processing fee".

Factor III (F3)

Third factor consists of variables namely, 'Easy repayment instalments (0.85816)', 'Loans are adequate (0.76096)', 'Refinance provided (0.63352)' with highest significant positive loadings. Since these represent the payment terms of loan, Factor III is called as "Terms of Loan."

State Bank of India customers are enjoying easy payment terms, loan adequacy, and refinance for further activities.

Suggestions

Recognition of service quality as a competitive weapon is relatively a recent phenomenon in the Indian Banking sector. Prior to the liberalisation era the banking sector in India was operating in a protected environment and was dominated by nationalised Banks. Banks at that time did not feel the need to pay attention to service quality issues and they assigned very low priority to identification and satisfaction of customer needs.

Conclusion

Customers vary in their expectations and attitudes and belong to wide socio-economic and cultural backgrounds. The gap between the expectations of customers and their

fulfillment is the root cause of grievances which affects the image of the bank. To overcome this situation, there should be an effective monitoring mechanism and constant vigil over the services provided to customers. Since they have a wide choice of services and multiplicity of products they are more conscious of convenience and cost, safety and speed, respect and quality, courtesy and elegance. State Bank of India has to be very careful in responding to the needs of their customers in an intensely competitive and rapidly changing environment.

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